



Property Tax Deductions

**“How To Do Enterprise
Zone”**

March 22, 2007



Today We Will Cover

- Basic Definitions and Information
- Investment Deduction
- Completing the EZ-2



Enterprise Zone Investment Deduction – IC 6-1.1-45

- IC 6-1.1-45
Chapter 45. Enterprise Zone Investment Deduction
- IC 6-1.1-45-1
Definition applicability
Sec. 1. The definitions in this chapter apply throughout this chapter.
As added by P.L.214-2005, SEC.16.
- IC 6-1.1-45-2
"Base year assessed value"
Sec. 2. "Base year assessed value" equals the total assessed value of the real and personal property assessed at an enterprise zone location on the assessment date in the calendar year immediately preceding the calendar year in which a taxpayer makes a qualified investment with respect to the enterprise zone location.
As added by P.L.214-2005, SEC.16.
- IC 6-1.1-45-3
"Corporation"
Sec. 3. "Corporation" refers to the Indiana economic development corporation established under IC 5-28-3-1.
As added by P.L.214-2005, SEC.16.



Enterprise Zone Investment Deduction – IC 6-1.1-45

- IC 6-1.1-45-4
"Enterprise zone"
Sec. 4. "Enterprise zone" refers to an enterprise zone created under IC 5-28-15.
As added by P.L.214-2005, SEC.16.
- IC 6-1.1-45-5
"Enterprise zone location"
Sec. 5. "Enterprise zone location" means a lot, parcel, or tract of land located in an enterprise zone.
As added by P.L.214-2005, SEC.16.
- IC 6-1.1-45-6
"Enterprise zone property"
Sec. 6. "Enterprise zone property" refers to real and tangible personal property that is located within an enterprise zone on an assessment date.
As added by P.L.214-2005, SEC.16.



Enterprise Zone Investment Deduction – IC 6-1.1-45

- IC 6-1.1-45-7
"Qualified investment"
Sec. 7. As used in this chapter, "qualified investment" means any of the following expenditures relating to an enterprise zone location on which a taxpayer's zone business is located:
 - (1) The purchase of a building.
 - (2) The purchase of new manufacturing or production equipment.
 - (3) Costs associated with the repair, rehabilitation, or modernization of an existing building and related improvements.
 - (4) Onsite infrastructure improvements.
 - (5) The construction of a new building.
 - (6) Costs associated with retooling existing machinery.*As added by P.L.214-2005, SEC.16.*

- IC 6-1.1-45-8
"Zone business"
Sec. 8. "Zone business" has the meaning set forth in IC 5-28-15-3.
As added by P.L.214-2005, SEC.16.



Enterprise Zone Investment Deduction – IC 6-1.1-45

- IC 6-1.1-45-9
Eligibility for deduction; amount; conditions

Sec. 9. (a) Subject to subsection (c), a taxpayer that makes a qualified investment is entitled to a deduction from the assessed value of the taxpayer's enterprise zone property located at the enterprise zone location for which the taxpayer made the qualified investment. The amount of the deduction is equal to the remainder of:

 - (1) the total amount of the assessed value of the taxpayer's enterprise zone property assessed at the enterprise zone location on a particular assessment date; minus
 - (2) the total amount of the base year assessed value for the enterprise zone location.

(b) To receive the deduction allowed under subsection (a) for a particular year, a taxpayer must comply with the conditions set forth in this chapter.

(c) A taxpayer that makes a qualified investment in an enterprise zone established under IC 5-28-15-11 that is under the jurisdiction of a military base reuse authority board created under IC 36-7-14.5 or IC 36-7-30-3 is entitled to a deduction under this section only if the deduction is approved by the military base reuse authority board.

As added by P.L.214-2005, SEC.16. Amended by P.L.154-2006, SEC.60.
- IC 6-1.1-45-10
Deduction application

Sec. 10. (a) A taxpayer that desires to claim the deduction provided by section 9 of this chapter for a particular year shall file a certified application, on forms prescribed by the department of local government finance, with the auditor of the county where the property for which the deduction is claimed was located on the assessment date. The application may be filed in person or by mail. If mailed, the mailing must be postmarked on or before the last day for filing. The application must be filed before May 10 of the assessment year to obtain the deduction.

(b) A taxpayer shall include on an application filed under this section all information that the department of local government finance and the corporation require to determine eligibility for the deduction provided under this chapter.

As added by P.L.214-2005, SEC.16.



Enterprise Zone Investment Deduction – IC 6-1.1-45

- IC 6-1.1-45-11
Eligibility; appeals
Sec. 11. (a) The county auditor shall determine the eligibility of each applicant under this chapter and shall notify the applicant of the determination before August 15 of the year in which the application is made.
(b) A person may appeal the determination of the county auditor under subsection (a) by filing a complaint in the office of the clerk of the circuit or superior court not later than forty-five (45) days after the county auditor gives the person notice of the determination.
As added by P.L.214-2005, SEC.16.
- IC 6-1.1-45-12
Deduction limitation
Sec. 12. A taxpayer may not claim a deduction under this chapter for more than ten (10) years.
As added by P.L.214-2005, SEC.16.



Timetable

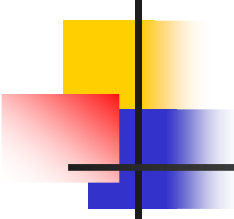


- The Enterprise Zone Investment Deduction Application (Form EZ-2) must be filed with the County Auditor between March 1st and May 10th.
- The County Auditor must notify the applicant of their determination by August 15th of the assessment year.
- If the applicant is in disagreement of the Auditor's determination, a complaint must be filed within forty-five (45 days) of the notification in the office of the clerk of the circuit or superior court.



Form EZ-2

- If the form includes a deduction claim for personal property, a copy of the current assessment year Business Tangible Personal Property Assessment return (Form 102 or 103) must be attached.
- The form and a personal property tax return are confidential pursuant to IC 6-1.1-35-9.
- Required to be filed **each** year a deduction is claimed even if no new equipment is acquired in that assessment year.



Enterprise Zone Investment Deduction FAQ's

- Q: What is the base year value?
A: For personal property, it is the prior year total depreciable property assessed value, excluding inventory.
- Q: Will the deduction amount ever change?
A: The deduction amount will remain the same as long as the personal property amount remains the same.
- Q: Could the Enterprise Zone Investment Deduction be claimed with the Personal Property Investment Deduction Credit?
A: Yes, a taxpayer could be eligible for both; however, other deductions may not be claimed in conjunction with the investment deduction (i.e. no "double-dipping").
- Q: What if the business disposes of the equipment or property, or demolishes the building before the end of the ten (10) year deduction schedule?
A: That portion of the deduction claimed by the taxpayer would not be eligible.
- Q: What are some reasons why the Enterprise Zone Deduction may be denied partially or in total?
A: The application may not have been timely filed; the business is not located within the established enterprise zone boundary; or the qualifying investment has been removed.



Investment Deduction

- Personal Property Investment deduction
- Filed with the Personal Property Return
- Three Year Deduction
 - 75 % the First year
 - 50 % the Second year
 - 25 % the Third year



Eligibility

- Personal property must meet the requirements of IC 6-1.1-12.4-3.
- Personal property owner must claim the investment deduction on a timely filed annual or amended personal property tax return.



Limitation

- The annual limitation of the investment deduction is two million dollars (\$2,000,000) in assessed value for the assessment year for all eligible personal property and real property separately, owned within the county.



Limitation

- An investment deduction is not authorized for
 - Private or commercial golf course
 - Country club
 - Massage parlor
 - Tennis court
 - Skating facility
 - Retail food or beverage service
 - Automobile sales or service
 - Other Retail



Limitation

- Other deductions may not be claimed in conjunction with investment deduction.
- If the investment deduction has been claimed for an assessment year, all other statutory deductions as set forth in IC 6-1.1-12.4-5 shall not be claimed on the investment.



Procedure

- A property owner must claim the personal property investment deduction by completing Schedule PPID-1 and attaching that schedule to a timely filed personal property tax return.
- This deduction can be used by Businesses, Farms and Utilities.



Investment Deductions and Abatements

- **Personal Property With Deductions and 30% Floor Per SEA 260-2005 Memo:**
 - Senate Enrolled Act 260 passed by the 2006 General Assembly had several changes that were retroactive. Effective January 1, 2006 there is a change in the calculation of the assessed value to be abated for certain Economic Revitalization Area abatements and the Investment Deduction. A memorandum discussing the nature of the change and addressing how to implement the change was distributed in May 2006.



Investment Deductions and Abatements

Effectively this sub-section (IC 6-1.1-12.1-4.5) increases the assessed value to be used for the calculation of the abatement deduction when a taxpayer is subject to the 30% floor. The provision expresses as a ratio, the increase in the entity's true tax value from the pooling schedules compared to the entity's true tax value under the mandated minimum value under 50 IAC 4.2-4-9 (30% floor) or 50 IAC 5.1-6-9 (utility 30% floor). For the purposes of this memorandum, the ratio will be called the minimum value ratio or MVR. For the purpose of calculating the abatement deduction, the assessed value of items that have been assessed by the mandatory minimum value (30% floor) is equal to the true tax value calculated from the pooling percentage multiplied by the MVR.



Investment Deductions and Abatements

This sub-section does not apply to equipment installed prior to March 2, 2001 as those abatements deductions are calculated based on the first year true tax value.

- The Investment Deduction (IC 6-1.1-12.4) cross-references to the calculations in IC 6-1.1-12.1 so the 30% floor and the Minimum Value Ratio is applicable to the PPID-1. There is no cross reference in the Enterprise Zone Investment Deduction (IC 6-1.1-45) so the **MVR does not apply to the EZ-2** investment deduction.



Investment Deduction FAQ's

Investment Deduction – Frequently Asked Questions

- Q1: Does the new capital investment deduction apply to taxpayers in tax increment finance districts?
A: **No. IC 6-1.1-12.4-4 provides that the property owner may not receive a deduction with respect to real or personal property located in an allocation area. Once an allocation area has been designated, this exclusion is triggered, even if no bonds have been sold.**
- Q2: Is the investment deduction limited to manufacturing and research and development equipment?
A: **No. IC 6-1.1-12.4-3 provides that the deduction applies to all personal property except inventory. The definition of personal property contained in 50 IAC 4.2-5-1 is incorporated by reference. Personal property includes computers, fixtures and furniture and business equipment.**



Investment Deduction FAQ's

- Q3: How is the \$2M annual assessed value limitation for real estate and personal property determined?
A: **IC 6-1.1-12.4-2(c) limits the deduction a property owner may receive in a particular county to not greater than \$2M in assessed value annually. For purposes of this limitation, the \$2M is the maximum deduction that may be received by a single property owner in a county, regardless of the number of parcels of real estate owned by the property owner in that county. Stated differently, each parcel of real estate does not have its own \$2M limitation. Personal property has a separate \$2M assessed value limitation.**
- Q4: Do improvements to real estate and purchases of personal property by farmers qualify?
A: **Yes—provided, however, that only improvements to real estate that results in an increase in assessed value and create or retain employment qualify. Purchases of agricultural land only do not qualify. Personal property other than inventory, as defined in 50 IAC 4.2-5-1, qualifies.**



Investment Deduction FAQ's

- Q5: Can a taxpayer receive both the traditional tax abatement and the capital investment deduction?
A: Yes, both deductions can be claimed but not on the same asset.
- Q6: Are any businesses excluded from receiving the capital investment deduction?
A: Yes. IC 6-1.1-12.4-2(h) provides that the deduction does not apply to a facility listed in IC 6-1.1-12.1. Those facilities include golf courses, country and tennis clubs, massage parlors, racetracks, restaurants, automobile dealerships, other retail establishments, residential property and package liquor stores.
- Q7: What type of notice will the property owner file to claim the capital investment deduction for real estate?
A: The property owner will file a RPID-1, a form that can be found at your local assessor's office or on the Department's website at: <http://www.in.gov/icpr/webfile/formsdiv/52504.pdf>.



Investment Deduction FAQ's

- Q8: What type of notice will the property owner file to claim the capital investment deduction for personal property?
A: The property owner will file a PPID-1 with their annual personal property return. The form can be found at your local assessor's office or on the Department's website at:
<http://www.in.gov/icpr/webfile/formsdiv/52502.pdf>.
- Q9: Does the capital investment deduction apply to apartment complexes?
A: IC 6-1.1-12.4-2(h) provides that the deduction does not apply to residential property unless:
(A) the facility is a multifamily facility that contains at least twenty percent (20%) of the units available for use by low and moderate income individuals;
(B) the facility is located in an economic development target area established under IC 6-1.1-12.1-7; or
(C) the area is designated as a residentially distressed area.
Apartment complexes may qualify if they meet the qualifications described above; however, IC 6-1.1-12.4-5 provides that an owner that qualifies for the capital investment deduction may not receive a deduction under another provision of Indiana Code for that taxable year.



Investment Deduction FAQ's

- Q10: How will the retention or creation of employment be determined by the assessor? Will this information be placed on the form as a guide from year to year?
A: Compliance with the retention or creation of employment is assumed to have occurred with the signature of the taxpayer below the certification on the application form. If a local official (township assessor, county assessor, or county auditor) feels this has not occurred, there is a provision for them to challenge this as outlined in the statute.
- Q11: The issue of a (capital or operators) lease is not addressed in the rule or in the code. Will this be addressed?
A: Whoever files the return and is responsible for payment of the property taxes on the equipment is eligible to apply for the investment deduction.



Investment Deduction FAQ's

- Q12: Would a leasing company, which is responsible for payment of the property taxes, be eligible for the investment deduction even though the property is located at a country club?

A: The deduction under this section does not apply to personal property at a facility listed in IC 6-1.1-12.1-3(e). That means that for this deduction only (not exemptions), personal property located at one of the excluded facilities does not qualify. There is nothing in the code citation excepting leased property.

- Q13: If a taxpayer is in a Real Estate only T.I.F. district, could they get the Personal Property Investment Deduction? Conversely, there is a T.I.F. district that is established solely for Personal Property. Could the taxpayer get the Real Property Investment Deduction?

A: Regardless of the purpose(s) the T.I.F. district was established, per IC 6-1.1-12.4 the property owner may not receive a deduction with respect to real or personal property located in an allocation area.



Investment Deduction FAQ's

- Q14: There seems to be a lot of confusion with the Investment Deduction for companies who provide a combination of service & retail. The Form PPID-1, Instruction 9 (k.) uses the phrase "primary purpose." If 51% of a company's income is derived from retail sales and 49% comes from the services rendered, would they be considered a retailer and not qualify?
A: "Other retail" is not defined in the code or regulations. The local officials should apply the same interpretation that they have used for abatements. If they have not made such an interpretation in the past, they need to use their best judgment and make a decision. The 50/50 test may be one appropriate way to view mixed industries.
- Q15: If a taxpayer fails to claim his PPID deduction for 2006, will he be permitted to claim the equipment next year at the year 2 - 50% deduction level?
A: Yes
- Q16: Does the true tax value of investment in year 2 follow the Form 103. Example: PPID for this year would be the cost x 40% x 75%, assuming the total assets are above the 30% floor. Next year would we calculate the year 2 at the cost x 56% x 50%?
A: Yes



Investment Deduction FAQ's

- Q17: Who is responsible for reporting the Investment Deduction amount from the PPID – the Township Assessor or the County Auditor?
A: Per IC 6-1.1-12.4-3 (e) & (f) – it is the Township Assessor's responsibility to identify and report to the County Auditor the Investment Deduction amount, as well as an Economic Revitalization abatement (Form 103-ERA) deduction. It is the County Auditor's responsibility to make the deductions. It is up to the local jurisdiction how they wish to handle the reporting of the investment deduction and/or the Economic Revitalization abatement amounts; however, the Township Assessor should report the pertinent information necessary for the tax duplicate, including the taxpayer name, parcel or identification number, property location, and the amount of the deduction(s). The amount(s) to be reported include: 1. the Gross Assessed Value; 2. the abatement amount (Form 103-ERA); 3. the PPID amount. The information can be transmitted either in an electronic format, such as an Excel spreadsheet, or manually.



Investment Deduction FAQ's

- Q18: Taxpayer A owns a tractor and uses it in Indiana. In 2006, he sells it to Taxpayer B. Taxpayer B has never before used the tractor in Indiana prior to the purchase. As long as Taxpayer B's purchase of the tractor creates or retains employment, would Taxpayer B be entitled to the deduction?
A: Per IC 6-1.1-12.4-3 (b), yes they would be entitled to the deduction.
- Q19: Can a farmer put up grain bins and other outbuildings and receive this deduction?
A: If the new construction creates or retains jobs he can receive the deduction. (See Question #4)
- Q20: Can a company set up two or three leasing companies so that each leasing company can have their own \$2 million limit? What about a corporation that sets up multiple subsidiaries?
A: The deduction will be processed based on Personal Property returns and RPID forms. If a company has three subsidiaries and they each file a separate Personal Property return, then it is possible they could get three separate \$2M deductions.



Investment Deduction FAQ's

- Q21: Who has the authority to challenge a company concerning the retaining of jobs? For example, if a company is laying people off while they are buying new equipment, can the assessor deny their deduction?
A: Under IC 6-1.1-12.4-6, a county assessor, township assessor, or county auditor may review whether the investment creates or retains jobs. IC 6-1.1-12.4-7 through -10 set forth the procedure, including a hearing and certain notices that must be given. (See Question #11)
- Q22: Can a taxpayer claim the Personal Property Investment Deduction on an amended return? Do they have to file an amended return or can they just file the PPID form?
A: Yes, a taxpayer may claim the PPID on a timely filed amended personal property return. A taxpayer can also change the amount of the investment deduction they are requesting by filing a timely amended personal property return. The taxpayer should file both an amended return and the PPID form since the personal property return will be amended to reflect the deduction.



Investment Deduction FAQ's

- Q23: Can maintenance type items qualify for the investment deduction?
A: The bottom-line answer is always look and see how they are treating the asset/property for federal tax purposes. If they are treating it as an expense (i.e. maintenance), then it probably would not be assessable as depreciable personal property. If, however, it is an enhancement (i.e. it adds value to the current asset), then they should probably treat it as depreciable personal property (it might be difficult to allocate or separate the two amounts).
- Q24: Would the 30% floor and the Minimum Value Ratio be applicable to the Personal Property Investment Deduction?
A: Yes, the Investment Deduction (IC 6-1.1-12.4) cross-references to the calculations in IC 6-1.1-12.1 so the 30% floor and the Minimum Value Ratio is applicable to the PPID-1.



Investment Deduction FAQ's

- Q25: What amount does the taxpayer report in Section 2 of the form, and what if the taxpayer completes Section 3?
A: In Section 2 of the PPID form, the taxpayer reports the total cost of the personal property investment as shown in the "Adjusted Cost" column of Schedule A of their return (see Question #25 if applicable). For the Real Property deduction, the taxpayer reports the total cost of the investment, including all hard and soft costs in Section 2. Section 3 is to be completed by the assessing official. If the taxpayer completes Section 3, the assessing official should verify the calculation. If the assessor changes the calculation, they should report the corrected amount and place their initials next to it.
- Q26: Does the taxpayer have to report the investment deduction each year on the Real Property Investment Deduction form?
A: The property owner must claim the deduction on the RPID form each year the deduction is claimed. The assessor may want to establish a "tickler" file to ensure the deduction is calculated for the remaining two (2) years.



Investment Deduction FAQ's

- Q27: What if the real property assessed value changes as a result of either annual adjustments or an appeal?
A: If the amount of the assessed value is adjusted, the amount of the investment deduction shall be adjusted by the assessor to reflect the percentage change in assessed value.
- Q28: A company in our county has multiple locations. If a company meets or exceeds the \$2 million investment deduction for personal property in a county, who determines how the deduction amount will be allocated?
A: The Auditor would be responsible for allocating the deduction, and it should be allocated consistent with where the property is located.
- Q29: What is the definition of a "multifamily" facility for the real property deduction? Is it two (2) units or four (4) or more units?
A: Although multifamily is not specifically defined in the rule, it can be implied that it refers to an apartment complex and not a duplex; hence, four or more units would be a natural place to start (see Question #10).



Investment Deduction FAQ's

- Q30: A taxpayer builds a single or multi-tenant commercial or industrial building which they will not occupy but plan to lease. Is the property eligible for the RPID?
A: Because the tenants that move into the property would create or retain employment, the taxpayer would be eligible for the investment deduction. The jobs created do not necessarily have to be employees of the property owner.
- Q31: One of the requirements for obtaining the investment deduction is that there will be an increase in assessed value. Is the increase for the total assessed value or just on the investment?
A: Per IC 6-1.1-12.4-3, it would be determined in the same manner that an increase in the assessed value of new manufacturing equipment is determined. Therefore, it would be based on the purchase of the personal property and not the overall assessed value.



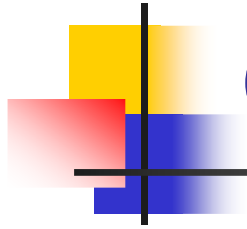
Investment Deduction FAQ's

- Q32. The deduction is not available to property in an allocation area. Is an allocation area the same as a TIF district?
A. A TIF district is one type of an allocation area. The others include: Airport Development Zones (defined in IC 8-22-3.5); Redevelopment Areas designated by the Redevelopment Commission (defined in IC 36-7-14); Redevelopment Areas designated by the Redevelopment Authority (defined in IC 36-7-14.5); Marion County redevelopment areas designated by the Metropolitan Development Commission (defined in IC 36-7-15.1); Military Base Reuse Areas (defined in IC 36-7-30); and other allocation areas defined by law.



Assessor Duties

- Upon receiving a Schedule PPID-1...
 - Identify the personal property eligible for the investment deduction.
- The assessor will report the assessed value before deductions to the County Auditor.



Questions

- Department of Local Government Finance
- (317) 232-3777
- www.in.gov/dlgf/